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SUBJECT: VAT TAX BRINGS IN THE MONEY FOR GUYANA

REF: GEORGETOWN 27

¶1. Summary: The returns are in from Guyana's newly instituted Value-Added Tax (VAT), and the government of Guyana is in the enviable position of adding more dollars to its reserves than initially projected. Leaked news of the positive returns re-ignited issues debated when the tax made its debut in January. The government promoted the tax as revenue neutral and claimed prices would remain stable or fall. Business and consumer voices challenged the government's ability to effectively institute and monitor tax collection, argued that prices would rise dramatically and called for protections for the most price sensitive citizens. With first quarter results in, opposition party, the private sector and consumer advocates are once again calling for a review of the VAT to ease the burden on Guyana's citizens. End Summary.

VAT IS A SUCCESS

¶2. On January 1, 2007, the Government of Guyana introduced the Value-Added Tax, which was to usher in a broader, more transparent system of revenue collection. Although there have been bumps in the road, overall the tax was instituted successfully. Based on first quarter counts as reported in the Stabroek News, the government collected more than US\$11.5 million above its initial projections. In a telephone conversation with the EconOff, Minister of Finance Ashni Singh expressed disappointment that the results of the revenue collection were leaked to the press as they may not reflect accurately the entire VAT collection picture. "With the benefit of a few months, all signals indicate that VAT has been implemented successfully," he said, adding that no major initiative of similar magnitude is undertaken without certain bumps particularly with the specific challenges and infrastructure limitations in Guyana. "We have resolved most of the issues with only sector specific issues remaining." Compliance is within acceptable norms, Singh continued, with "75 to 80 percent of businesses having filed VAT returns. "He also said that the ministry will step up activities in regard to compliance by initiating audits.

HOW MUCH EXTRA MONEY? TOO EARLY TO SAY

¶3. Singh said it is too early to reach a conclusion regarding revenue earnings because of several variables. The leaked figures, he noted, reported actual collections, and it is not possible to draw conclusions from those numbers at this time. For example, businesses may be entitled to refunds for VAT paid on inputs but are not yet familiar with the refund policy. He also noted that Cricket World Cup hosted in March - April 2007 may have altered the economic income for businesses over the first quarter and comparisons to the first quarter of 2006 are also distorted because major flooding in agricultural regions in January 2006 depressed

business activity. Furthermore, elections in August 2006 also caused business investors to be more conservative last year. According to the minister, given the dynamics of the economy and the unusual traffic, more time is needed before a firm conclusion can be drawn regarding revenue earnings.

14. (SBU) An expat contractor providing technical assistance to the Guyana Revenue Authority (GRA) indicated to EconOff that the tax earnings are not a one-time bonus but will remain steady over the long term. Reviewing GRA's progress to date, the head of the VAT unit at the General Revenue Authority told the EconOff that since the tax was introduced, the office was concerned mainly with registering businesses, but with some 2,200 entities registered is now concentrating on compliance issues, ie, ensuring that businesses have receipt books or other systems in place to account for sales and VAT collection and remittances.

BUT WHO PAYS THE PRICE?

15. Meanwhile, inflation rose 10 percent from April 2006 to April 2007, and those who projected that prices would rise are now calling for adjustments to the VAT. Leader of the Parliamentary Opposition Robert Corbin called for a Parliamentary Committee to make recommendations to reduce the rate of the VAT, pay increases for workers most affected by the tax and the formation of a commission to review the entire tax structure. The National Assembly defeated the motion on a party-line vote. Guyana's primary consumer advocate complained that consumers are facing higher prices despite repeated government assurances that prices would stabilize. Adding its perspective, the International

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